

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)	
)	
Federal-State Joint Board on)	
Universal Service)	CC Docket No.
96-45)	
)	
Review of the Definition of)	
Universal Service)	

REPLY COMMENTS OF
SANDWICH ISLES COMMUNICATIONS, INC.

I. INTRODUCTION AND SUMMARY

Sandwich Isles (SIC) hereby submits its reply comments on the review of the definition of universal service, as requested by the Joint Board in its Public Notice in the above-captioned proceeding. In the Public Notice, the Joint Board seeks comment on what services, if any, should be added to or removed from the list of core services eligible for federal universal service support and how those core services should be defined.

SIC asserts that there still remain unusual and unique "insular" needs that have yet to be addressed by the Federal-State Joint Board and the FCC to fully meet the intent of Congress to ensure universal service throughout America. SIC continues to believe that the definition of universal service, specifically, the definition of "Access to interexchange service" (47 CFR 54.101(a)(7)) should be

modified to include the use of transport facilities in the insular areas of Hawaii and Alaska. This is critically important to promote new investment in transport infrastructure that will serve the more remote areas of Hawaii's "neighbor islands."

Current FCC universal service policies create barriers for the insular states of Hawaii and Alaska. Specifically, we find it difficult to reconcile Hawaii's share of total universal service support - point one (.1) percent of the total fund - with the FCC's statement of belief that their policies do not create barriers.

Like Alaska, SIC believes support funds will be necessary to recover the high cost of a transport network. If the FCC does not address the high cost of transport in insular areas by providing universal service support, the cost of access may become so high that long distance providers withdraw services. Then, consumers will not be afforded the ability to choose a long distance provider, frustrating one of the benefits of competition and the Telecom Act.

Finally, and most importantly, public welfare and safety demand that new transport investment be in state-of-the-art, buried fiber optic facilities. A buried terrestrial transport backbone throughout the State of Hawaii is needed. As a case in point, Hurricane Iniki ravaged Kauai in 1992, laying pole line down like matchsticks. Ironically, these pole line and aerial

facilities were not replaced with buried facilities. Instead, because the cost of buried infrastructure is very high, the aerial facilities were rebuilt. And, now, they sit in wait for the next hurricane.

II. FCC UNIVERSAL SERVICE POLICIES CREATE BARRIERS FOR THE INSULAR STATES OF HAWAII AND ALASKA

SIC is generally in agreement with the majority of commenters that believe little change is needed in the definition of universal service. However, as noted by the Montana Universal Service Task Force (MUST):

" Equally important, in our view, is a periodic reexamination of whether the existing definition is working in a manner that is consistent with the universal service principles of the Act and is accomplishing the stated universal service goals set forth in the Act. This is particularly true in the present instance when we are reviewing the Commission's first stab at a definition of universal service." (MUST at 5)

SIC asserts that there still remain unusual and unique "insular" needs that have yet to be addressed by the Federal-State Joint Board and the FCC to fully meet the intent of Congress to ensure universal service throughout America.

Hawaii and Alaska represent a special case relative to the telecommunications infrastructure required to provide universal service for individuals residing in the insular reaches of each state. And it is critically important that these special circumstances are recognized and universal service funding mechanisms are put in place to promote infrastructure deployment.

In its comments, GVNW quoted from the Rural Task Force Order released May 23, 2001:

" We (the FCC) agree with the Rural Task Force that our universal service policies should not inadvertently create barriers to the provision of access to advanced services, and believe that our current universal service system does not create such barriers." (GVNW at 2).

SIC would argue that the FCC policies do, in fact, create such barriers, especially for Hawaii. **A review of the Universal Service Fund finally projected for the year 2000 by state, for both non-rural and rural companies, shows that Hawaii received \$2.1M of the total \$2.3B fund - that is point one (.1) percent of the total fund (See Appendix A).**

Given this fact, we find it hard to reconcile Hawaii's universal service support level with the FCC's statement of belief that their policies do not create barriers. Especially when the cost to build transport infrastructure in Hawaii is very high and populations are sparse on the

" neighbor islands." Additional support funds are necessary to maintain affordable access to interexchange services.

**III. UNIVERSAL SERVICE POLICIES SHOULD ENCOURAGE
INVESTMENT IN NECESSARY TRANSPORT FACILITIES IN
INSULAR AREAS OF HAWAII AND ALASKA**

The cost of transport facilities to reach insular areas is an acute issue for both Hawaii and Alaska. In addition to the position SIC has taken in its comments, the State of Alaska filed comments which were similar in that they focused attention on Alaska's high-cost, transport network (satellite), noting:

" Alaska is the only state in which residents of rural high-cost communities are heavily dependent on satellite-based networks for . . . interexchange services." (State of Alaska at 22).

Although Hawaii's insular areas can be penetrated by fiber, the cost of meeting the unique construction challenges posed by crossing volcanic terrain and a vast ocean are significant. SIC has designed a transport network connecting the Hawaiian Home Lands on all six of the major Hawaiian Islands. The network will cost in excess of \$200M to construct.

Just as SIC identified a need for the Commission's universal service policies to address the high cost of transport, the State of Alaska also stated:

" Specifically, the State urges the Joint Board to recommend that the Commission provide universal service support . . . for improvements to the networks . . . in high-cost areas of Alaska."

(State of Alaska at 22).

Like Alaska, SIC believes support funds will be necessary to recover the high cost of a state-of-the-art transport network.

Furthermore, SIC believes that the future of Hawaii's infrastructure investment is dependent upon SIC's ability to move forward with the deployment of a robust network to connect the 6 major islands. The December 7 issue of Pacific Business News reported that in Hawaii, Verizon " invested \$92.5M" in infrastructure in 2001, " 16 percent down (Emphasis added) from its \$110M invested in 2000." " The local telecom plans to spend more than \$90 million for its Kakaako plan and other projects next year . . . "

From an SIC perspective, these Verizon plans focus on rebuilding infrastructure on Oahu, leaving little for the " neighbor islands." And they signal a continued decrease in dollars to be invested by Verizon in Hawaii.

SIC is concerned for the Hawaiian consumer and whether there will be sufficient capital investment to ensure that all Hawaiians will have access to interexchange services and

advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

SIC is concerned that the level of infrastructure investment targeted for Hawaii may not be sufficient to allow Hawaiians to participate fully in the Information Age. Without universal service funds to support investment in needed transport infrastructure by SIC - a LEC that is singularly focus on serving Hawaiians - the digital divide may become a reality for the " Island State."

IV. UNIVERSAL SERVICE POLICIES SHOULD PROVIDE CONSUMERS WITH A CHOICE FROM AMONG LONG DISTANCE CARRIERS

FCC Orders for both access reform and universal service appear to be working in concert to lower the cost of access for interexchange carriers, while ensuring that sufficient universal service funds grow to meet the mandate of the Telecom Act for universal service. This neutral shift in cost recovery from access charges to universal service funds is fundamentally necessary to maintain the financial health of rural LECs serving sparse populations in high cost areas.

By lowering access prices, the FCC is encouraging interexchange carriers to compete for customers throughout

America. MUST comments emphasize the importance of this policy:

" Rural subscribers consider the ability to choose a long-distance provider to be fundamental. This is particularly important in rural areas where so many calls are long distance and therefore the long-distance costs to subscribers can mount quickly. " (MUST at 20)

SIC asserts, again, that the FCC has yet to consider consumers in insular areas when developing support mechanisms for consumer access to telecommunications and information services. Interexchange carriers are withdrawing or threatening to withdraw from rural areas because of the high cost of access. If the FCC does not recognize the high cost of transport in insular areas and provide universal service support, the cost of access may become so high that consumers will not be afforded the ability to choose a long distance provider.

If sufficient universal service support were provided, access prices for transport facilities would not be an issue for high-cost insular areas. SIC is submitting draft language for Part 54 of the Commission's rules, which would modify the existing definition of universal service. The new rule for " Access to interexchange service," (47 CFR 54.101(a)(7)) includes language as follows: " In the states of Hawaii and Alaska, the use of transport facilities is included in this definition."

Another rule should be added to define " Insular area transport support" (47 CFR 54.304). This rule would operate similar to the rule established for Local Switching Support (47 CFR 54.301). It would establish the mechanism for 1) initially estimating the support requirement, 2) paying out an interim amount of support, and 3) truing-up on an annual basis the support payments necessary to recover the cost of transport facilities in the insular areas of Hawaii and Alaska (See Appendix B).

V. UNIVERSAL SERVICE FUNDS ARE NECESSARY TO CONSTRUCT BURIED TRANSPORT FACILITIES, THEREBY PROTECTING THE PUBLIC WELFARE

Finally, public welfare, the " public interest need," demands that state-of-the-art, buried facilities provide the terrestrial piece of a transport backbone for telecommunications throughout the State of Hawaii.

When Hurricane Iniki rampaged the Island of Kauai in 1992, pole line and aerial facilities on the island were laid down like matchsticks (See Appendix C -photo). Ironically, this pole line was replaced, not with reliable buried facilities, but with another aerial facility . . . that is sitting in wait for the next hurricane.

VI. CONCLUSION

For the reasons set forth above, and in SIC's initial comments, the Joint Board should recommend that the universal service definition be modified, specifically, the definition of "Access to interexchange service" should be modified to include the use of transport facilities in the insular areas of Hawaii and Alaska.

FCC universal service policies should not create barriers, but should instead encourage investment in necessary transport facilities. Universal service support will lower the cost of access paid by interexchange carriers and will motivate them to compete for customers, even in insular areas of Hawaii. Consumers will benefit, in turn, by having a choice from among competing long distance providers. Both fundamental objectives of the Telecom Act - competition and universal service - will become a reality, rather than merely public policy goals.

Finally, public welfare cannot be adequately addressed unless universal service support is provided to offset the high cost of buried facilities where hurricanes pose a real threat to Hawaiian telecommunications. The terrestrial backbone transport facility serving Hawaii should be buried and the high cost of constructing these facilities should be born by universal service funds.

Consistent with the intent of Congress, the benefits that come from providing funds for transport facilities that extend into the insular reaches of Hawaii and Alaska will accrue to all Americans. Communications is fundamentally a

2-way, sharing process. Low-cost access to interexchange services will open doors that lead to participation, prosperity, and an ever improving quality of life for Hawaiians. Low-cost access to interexchange services will allow the resources, knowledge, and all that the Hawaiian experience represents to be shared with all Americans.

Respectfully submitted,

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APPENDIX A

FCC UNIVERSAL SERVICE POLICIES
CREATE BARRIERS FOR HAWAII

HAWAII RECEIVES POINT ONE PERCENT OF THE TOTAL FUND

(www.fcc.gov/ccb/universal_service/quarterly_filings/2001q1/hc3.xls)

STATE	Non-Rural Companies			Rural Companies		Total Projected High Cost Support
	High Cost Model Support	Hold-Harmless Support	Interstate Access Support	HCL, LSS, and LTS Support Payments	Interstate Access Support	
AK	\$0	\$0	\$0	\$71,239,776	\$0	\$71,239,776
AL	\$52,059,559	\$0	\$8,462,034	\$28,098,684	\$367,548	\$88,987,825
AR	\$0	\$3,158,676	\$3,416,682	\$67,032,576	\$0	\$73,607,934
AS	\$0	\$0	\$0	\$591,096	\$0	\$591,096
AZ	\$0	\$0	\$0	\$33,745,236	\$2,074,662	\$35,819,898
CA	\$0	\$6,411,636	\$13,383,834	\$43,114,944	\$3,029,382	\$65,939,796
CO	\$0	\$1,302,924	\$8,129,688	\$43,036,032	\$0	\$52,468,644
CT	\$0	\$0	\$0	\$885,756	\$0	\$885,756
DC	\$0	\$0	\$0	\$0	\$0	\$0
DE	\$0	\$0	\$195,324	\$0	\$0	\$195,324
FL	\$0	\$0	\$30,752,736	\$19,659,420	\$54,216	\$50,466,372
GA	\$0	\$0	\$5,955,882	\$73,977,612	\$110,568	\$80,044,062
GU	\$0	\$0	\$0	\$3,265,800	\$0	\$3,265,800
HI	\$0	\$0	\$731,664	\$1,323,060	\$0	\$2,054,724
IA	\$0	\$0	\$0	\$26,698,080	\$3,789,924	\$30,488,004
ID	\$0	\$0	\$0	\$28,934,832	\$6,915,630	\$35,850,462
IL	\$0	\$0	\$6,513,558	\$24,799,956	\$79,002	\$31,392,516
IN	\$0	\$243,348	\$10,324,644	\$19,038,060	\$1,311,930	\$30,917,982
KS	\$0	\$0	\$343,686	\$64,484,508	\$2,992,626	\$67,820,820
KY	\$1,219,584	\$600,888	\$8,746,584	\$18,995,184	\$286,260	\$29,841,166
LA	\$0	\$0	\$5,441,202	\$67,587,960	\$0	\$73,029,162
MA	\$0	\$0	\$674,682	\$593,892	\$0	\$1,268,574
MD	\$0	\$0	\$1,842,006	\$552,276	\$0	\$2,394,282
ME	\$11,014,163	\$0	\$416,958	\$19,527,300	\$0	\$30,756,614
MI	\$0	\$0	\$90,168	\$39,053,148	\$0	\$39,143,316
MN	\$0	\$0	\$1,334,166	\$46,436,664	\$703,128	\$48,473,958
MO	\$0	\$10,018,656	\$4,638,888	\$48,501,960	\$3,076,530	\$66,236,034
MP	\$0	\$0	\$0	\$3,184,020	\$125,574	\$3,309,594

APPENDIX A

**FCC UNIVERSAL SERVICE POLICIES
CREATE BARRIERS FOR HAWAII**

HAWAII RECEIVES POINT ONE PERCENT OF THE TOTAL FUND

STATE	Non-Rural Companies			Rural Companies		Total Projected High Cost Support
	High Cost Model Support	Hold-Harmless Support	Interstate Access Support	HCL, LSS, and LTS Support Payments	Interstate Access Support	
MS	\$104,799,725	\$0	\$5,959,164	\$23,693,700	\$0	\$133,549,282
MT	\$1,623,800	\$0	\$33,990	\$44,662,032	\$233,064	\$46,475,253
NC	\$0	\$3,372,660	\$5,738,934	\$24,557,940	\$0	\$33,669,534
ND	\$0	\$0	\$517,464	\$24,728,292	\$0	\$25,245,756
NE	\$0	\$0	\$0	\$23,289,324	\$599,496	\$23,888,820
NH	\$0	\$0	\$992,394	\$7,551,360	\$0	\$8,543,754
NJ	\$0	\$0	\$2,362,482	\$970,056	\$171,750	\$3,504,288
NM	\$0	\$1,763,376	\$1,551,414	\$31,522,128	\$2,291,376	\$37,128,294
NV	\$0	\$0	\$991,212	\$11,696,712	\$1,998,702	\$14,686,626
NY	\$0	\$0	\$9,152,994	\$40,318,560	\$3,552,702	\$53,024,256
OH	\$0	\$0	\$3,897,492	\$15,888,564	\$0	\$19,786,056
OK	\$0	\$0	\$3,394,866	\$61,912,224	\$0	\$65,307,090
OR	\$0	\$0	\$6,909,180	\$39,210,864	\$915,144	\$47,035,188
PA	\$0	\$0	\$1,456,632	\$22,241,976	\$5,113,098	\$28,811,706
PR	\$0	\$147,269,115	\$0	\$0	\$0	\$147,163,741
RI	\$0	\$0	\$24,612	\$0	\$0	\$24,612
SC	\$0	\$4,189,920	\$7,559,556	\$37,973,232	\$774,468	\$50,497,176
SD	\$0	\$0	\$32,742	\$20,920,584	\$0	\$20,953,326
TN	\$0	\$0	\$4,486,422	\$30,062,868	\$9,624	\$34,558,914
TX	\$0	\$1,196,448	\$14,275,992	\$116,774,148	\$4,534,104	\$136,780,692
UT	\$0	\$0	\$1,117,200	\$10,763,100	\$467,100	\$12,347,400
VA	\$0	\$1,516,932	\$25,045,542	\$10,349,472	\$273,576	\$37,185,522
VI	\$0	\$0	\$0	\$24,152,856	\$0	\$24,152,856
VT	\$15,510,252	\$0	\$187,944	\$10,660,008	\$0	\$26,021,738
WA	\$0	\$0	\$6,493,092	\$42,672,264	\$2,153,094	\$51,318,450
WI	\$0	\$0	\$1,178,082	\$52,663,476	\$114,108	\$53,955,666
WV	\$32,128,265	\$0	\$5,837,208	\$22,134,636	\$3,853,854	\$63,180,764
WY	\$5,000,899	\$0	\$2,744,718	\$22,492,236	\$214,668	\$30,279,320
RESERVED	N/A	N/A	TBD	N/A	TBD	\$49,477,378
TOTAL	\$223,356,246	\$181,044,579	\$223,335,714	\$1,568,220,444	\$52,186,908	\$2,297,621,269

FUNDING THE HIGH COST OF TRANSPORT

PART 54 RULE CHANGES: Two changes in the rule language would be required:

- Modify rule 54.101(a)(7) to include the transport costs of Hawaii and Alaska, and
- Add rule 54.304 to define Insular Area Transport Support.

54.101(a)(7) Additional language as follows: " In the states of Hawaii and Alaska, the use of transport facilities is included in this definition."

54.304 Insular area transport support

(a) Calculation of insular area transport support. Beginning January 1, 2002, an incumbent local exchange carrier that has been designated an eligible telecommunications carrier in Hawaii and Alaska and that serves a study area with 50,000 or fewer access lines shall receive support for its transport costs using the carrier's projected annual unseparated (combined intrastate and interstate) transport revenue requirement. For purposes of this section, transport costs shall be defined as the sum of the unseparated (combined intrastate and interstate) tandem-switched, direct-trunked and special access transport costs referenced in section 69.4(b) of this chapter.

(b) Submission of data to the Administrator. Each incumbent local exchange carrier that has been designated an eligible telecommunications carrier in Hawaii and Alaska and that serves a study area with 50,000 or fewer access lines shall, for each study area, provide the Administrator with the projected total unseparated (combined intrastate and interstate) transport revenue requirement for the calendar year following each filing. This information must be provided to the Administrator no later than October 1 of each year. The Administrator shall use this information to provide interim insular area transport support.

(c) True-up adjustment.

(1) *Submission of true-up data.* Each incumbent local exchange carrier that has been designated an eligible telecommunications carrier in Hawaii and Alaska and that serves a study area with 50,000 or fewer access lines shall, for each study area, provide

the Administrator with the historical total unseparated (combined intrastate and interstate) transport

APPENDIX B

revenue requirement, calculated pursuant to 54.304(a), for each calendar year no later than 12 months after the end of such calendar year.

(2) Calculation of true-up adjustment.

(i) For each carrier receiving insular area transport support, the Administrator shall calculate the difference between the historical and the projected annual support payments provided the Administrator, pursuant to 54.304(b) and (c) (1).

(ii) The Administrator shall adjust each carrier's insular area transport support payment by the difference calculated in paragraph (2)(i) of this section no later than 15 months after the end of the calendar year for which historical data are submitted.

(d) Calculation of insular area transport support for average schedule companies.

(1) The unseparated (combined intrastate and interstate) transport revenue requirement for average schedule companies, as defined in section 69.605(c) of this chapter, shall be calculated in accordance with a formula approved or modified by the Commission. The Administrator shall submit to the Commission and the Common Carrier Bureau for review and approval a formula that simulates the disbursements that would be received pursuant to this section by a company that is representative of average schedule companies. For each annual period, the Administrator shall submit the formula, any proposed revisions of such formula, or a certification that no revisions to the formula are warranted on or before December 31 of each year.

(2) The Commission delegates its authority to review, modify, and approve the formula submitted by the Administrator pursuant to this paragraph to the Chief, Common Carrier Bureau.

APPENDIX C

UNIVERSAL SERVICE FUNDS
ARE NECESSARY TO CONSTRUCT
BURIED TRANSPORT FACILITIES ON HAWAII

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Aftermath of Hurricane Iniki, Kauai, HI, September 1992